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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Access Charge Reform	)	CC Docket No. 92-262
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
Usage of the Public Switched Network by Information Service and Internet Access Providers.	)	CC Docket No. 96-263

I. INTRODUCTION AND SUMMARY

California recommends that the FCC eliminate the carrier common line charge (CCLC), as California did with its intrastate CCLC in 1994, and order recovery of CCLC revenue for both single and multi-line business customers, and for non-primary residential lines by raising the subscriber line charge (SLC). To recover CCLC revenue currently earned from primary residential lines, the CPUC suggests use of a per line charge paid by interexchange carriers (IXCs).

The CPUC further concurs with the FCC's proposal to set flat rates for both line side and port side non-traffic sensitive local switching costs, as California has taken a similar approach in its Open Access Network Architecture and Development (OANAD) proceeding.[1] Further, California supports establishing call-setup charges, which the CPUC has already done for intrastate access. The CPUC also agrees with the FCC that charges for entrance facilities and direct transport service should be flat-rated.

[1] CPUC Docket R.93-04-003/I.93-04-002.

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On the question of whether access reform should be market-based or prescriptive, the CPUC suggests blending the two approaches. California proposal would to divide the state into "competitive" and "not-sufficiently-competitive" areas, applying the market-based approach in competitive areas, and the prescriptive approach in not-sufficiently-competitive areas. The CPUC's proposal is set forth in greater detail in § II of these comments.

California comments on a number of transition issues. Specifically, the CPUC believes that universal service funding will be directed primarily to support high-cost loops. Consequently, it would be appropriate to eliminate the CCLC, which recovers loop costs. In addition, California declines to quantify the difference between current incumbent local exchange carrier (ILEC) interstate access revenues and the revenues they will realize under a restructured interstate access scheme. The CPUC does recommend that, if the FCC determines such a gap exists and that ILECs are entitled to recover that difference, recovery should not begin until after the FCC issues a final access reform order in this docket. Further, California recommends that such recovery be effected via a surcharge on access customers.

California also proposes that the FCC require incumbent price cap LECs to develop forward-looking, economic costs based on total service long run incremental cost (TSLRIC), or comparable, studies for terminating access. The CPUC explicitly opposes the suggestion in the NPRM that end users be directly charged for interstate terminating access.

II. RATE STRUCTURE MODIFICATIONS

The NPRM tentatively concludes, and California agrees, that current interstate switched access rates are not reflective of how ILECs incur costs associated with provisioning switched access. California supports rate modifications that more closely reflect cost causation. However, such modifications might have a disproportionately large effect on small IXCs. The CPUC recognizes that the FCC will balance the relevant benefits of having cost-based rates and associated efficient use of the network against the benefits created by a multiple provider environment. Some of the FCC's proposals will likely be considered in California over the next two years as the CPUC completes its OANAD proceeding, in which unbundled element prices will be developed. California provides the following comments on the NPRM's proposals for rate structure modifications.

A. Alternative Methods of Recovery of Subscriber Loop Costs

California believes that the Commission should eliminate the traffic-sensitive federal CCLC. (NPRM, ¶ 60.) The CCLC is not cost-based, and should not be assessed on a per-minute basis. California eliminated its intrastate CCLC in the context of a rate design proceeding for California's two largest LECs, Pacific Bell and GTEC, precisely because it was not a cost-based charge and was producing pricing distortions in the intrastate toll market.[2] In that rate design proceeding, the lost CCLC revenue was recovered by moving business basic exchange rates to embedded cost and residential basic exchange rates closer to embedded cost.[3] California recommends that the Commission recover CCLC revenue for all business basic exchange service, including both single and multi-line business, as well as secondary residential lines, by raising the SLC cap.

The recovery of the residential CCLC is more complicated. The Joint Board has

[2] California PUC Decision (D.)94-09-065, *slip op.*, p. 121.
[3] Id., p. 122.

recommended reducing or maintaining the SLC cap for residential and single-line business.[4] Accepting this constraint for primary residential lines, California recommends that the remaining CCLC be recovered through a per line charge paid by IXCs. The distinction between primary and secondary residential lines is justified by the fact that, increasingly, secondary lines are being used with modems exclusively for local calling so that users may not select a primary interexchange carrier (PIC). California does not believe that this per-line charge will cause a conflict with the directive in Section 254(g) of the 1996 Telecommunications Act that IXCs charge their subscribers the same rates within and between states. While there will be variation in this per line charge between companies and states, the variation will be mitigated by the universal service fund which will direct support towards exceptionally high-cost lines. California does not support a "bulk billing" system whereby carriers providing interstate interexchange service are assessed a charge based on their share of interstate interexchange revenues. The resulting CCLC charge would be indirectly related to usage to the extent that revenues are dependent on usage, which would blur the price signals that the FCC is seeking to sharpen.

California cautions against relying on universal service mechanisms to recover the CCLC. This approach will not accomplish the Commission's goal of recovering common line costs in a manner which reflects the way these costs are incurred. (NPRM, ¶ 58.) The CPUC rejected a similar approach when it eliminated the intrastate CCLC. During that proceeding a party proposed recovering CCLC revenues through a retail surcharge. The CPUC determined that such a mechanism would blur the price signals that are the foundation of competitive efficiency. (D.94-09-065, *slip. op.*, p. 121.) An

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[4] Federal-State Joint Board on Universal Service Recommended Decision, § 770.

appropriately structured universal service fund will allow ILECs to recover the federally allocated portion of the cost of exceptionally high cost lines from that fund.

B. Subscriber Line Charge

California supports the Commission's proposal to increase the cap on the SLC for all multi-line business customers, non-primary residential customers and customers that have not selected a PIC to the per-line loop costs assigned to the interstate jurisdiction. (NPRM, ¶ 65.) In addition, California believes that the cap on the SLC for single line business customers should also be raised. (Id.)

Prior to raising the SLC cap, California believes that the Commission should coordinate its assessment of the competitive conditions in local markets with state commissions, which are in the best position to evaluate competitive conditions in local markets. (NPRM, ¶ 65.) In addition, differing degrees of rate flexibility for the SLC and local rates could lead to inconsistent and confusing rate treatment. The CPUC also believes that rate deaveraging of the subscriber line charge in a manner that is inconsistent with the level and degree of averaging of local rates is potentially problematic and would not lead to the efficient pricing that the FCC is seeking.

III. LOCAL SWITCHING

A. Non-Traffic Sensitive Switching Charges

The Commission proposes establishing flat-rate charges for both line side and port-side non-traffic sensitive local switching costs. (NPRM, ¶ 72-73.) The NPRM solicits comments as to how to determine costs and, more generally, how to establish efficient rate structures. The FCC notes that states may have developed relevant experience with these issues by fulfilling their obligations under § 252 of the 1996

Telecommunications Act. In the CPUC's OANAD proceeding, parties reached agreement that costs associated with line and port cards should be measured on a flat monthly basis. (See Attachment A.) While the CPUC has not set rates for these elements in the OANAD proceeding, it has established interim rates in numerous arbitrations that use the OANAD cost data and apply a fixed mark-up for shared and common costs. Thus interim rates are flat, monthly charges for line and port cards. (A copy of the rates established in a recent arbitration award is contained in Attachment B.)

B. Traffic-Sensitive Switching Charges

The NPRM proposes allowing incumbent LECs to establish call-setup charges. (NPRM, ¶ 76.) California supports this proposal, having established call-setup charges for intrastate switched access two years ago. In the most recent review of the CPUC's incentive regulatory framework for Pacific Bell and GTE California, the CPUC determined that call set-up charges were more reflective of how incumbent LECs incurred costs for switched access. This conclusion was confirmed when parties adopted a similar result in the OANAD consensus costing principles.

The NPRM suggests that ILECs could be directed to or allowed to develop peak and off-peak pricing for shared local switching facilities. (NPRM, ¶ 77.) In developing the consensus costing principles in California's unbundling (OANAD) proceeding, parties concluded that it was premature to examine peak/off-peak pricing. Consequently, the CPUC cannot offer the FCC the benefit of its experience on this issue.

C. Entrance Facilities and Direct Trunk Transport Services

The CPUC agrees with the FCC's tentative conclusion that entrance facilities and direct trunked transport service should be recovered through flat-rated charges. (NPRM, ¶ 86.) In the CPUC's OANAD proceeding, parties reached consensus that flat-rated charges best reflect how incumbent LECs incur these costs. Further, the CPUC views the Commission's tandem rate proposal in ¶ 54 as promising. But in light of California's pending OANAD proceeding, the CPUC declines to offer more detailed comments.

IV. APPROACHES TO ACCESS RATE REFORM AND DEREGULATION

A. California Supports A Blended Approach to Access Reform

The NPRM proposes two different approaches to access reform – a market based approach and a prescriptive approach. (NPRM, ¶ 140.) The market-based approach relies on market forces to move interstate access rates down to more cost-based levels. The NPRM further proposes a plan for reducing regulation in two phases as competitive benchmarks are achieved short of substantial competition. In the prescriptive approach, the FCC would move prices to cost-based levels quickly. In ¶ 145, the FCC asks commenters who propose a blended approach to describe how the two approaches could be melded.

Although California is in the midst of a transition from monopoly to competitive local telecommunications markets, the CPUC has not yet resolved the specific issue of how to achieve access rate reform and deregulation. Thus, California cannot offer the FCC the benefit of its direct experience in reforming rates and deregulating ILECs in response to the onset of competition. California, however, suggests that the FCC consider combining elements of the market-based and prescriptive approaches, based on the fact that competition for access services will develop at different rates in different markets.[5] While the market-based approach should prove to be effective in San

[5] In its March, 1996 decision adopting interim wholesale discounts and additional pricing flexibility for Pacific Bell and GTE California, the CPUC addressed this very issue: "While we find that varying degrees of competition can be expected in certain market segments within Pacific's and GTEC's service territory in the near term, we do not find evidence that Pacific and GTEC will automatically lose their dominant market position overnight merely because CLCs have been granted certificates to enter the local exchange market . . . Accordingly, we shall grant limited additional pricing flexibility to the LECs

Francisco or Los Angeles where competitors are already in the market place, it would have less chance of success in Barstow or Yreka. Removing barriers to entry may not be enough of an incentive for facilities-based competitors to move outside urban areas in the near term.

This blended approach would divide a state into two areas: competitive and not-sufficiently-competitive because California anticipates that competition will not develop at a uniform rate in all areas of the state. However, any serving wire center which is currently providing unbundled elements to at least one competitor not affiliated with the ILEC and meets a majority of the Phase I criteria as described in ¶ 163 could be classified as "competitive". The requirement that the competitor not be an ILEC affiliate addresses the concern that genuine competition should exist in that market.

Also, in ¶ 147 parties are asked to comment on whether carriers would be able to shift costs among services under a blended approach. While the melded approach would treat the competitive and not-sufficiently-competitive areas as discrete entities, the possibility remains that the ILEC will be able to cross-subsidize reduced revenues in competitive areas with artificially higher rates in not-sufficiently-competitive areas, resulting in large part from the underlying embedded cost studies which rely on company-wide data. The phased reduction of access charges for not-sufficiently-competitive areas and limited recovery period should reduce the potential for cross subsidization. Rates in the not-sufficiently-competitive areas would be capped with only downward pricing flexibility allowed.

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effective March 31, 1996 in relation to the degree of competition we expect to materialize in the immediate future. It would be premature, however, to make sweeping changes in LEC pricing rules at this point before competition has become sufficiently developed. LEC pricing flexibility must be granted in progressive stages in proportion to the responsiveness of the market to competition". (CPUC D.96-03-020, slip op., p. 45.)

The market-based approach would be employed in those geographic areas which meet the test to be considered competitive. Access rates in the competitive areas would be capped at current rates, but ILECs would have downward pricing flexibility to a TSLRIC floor. The CPUC recommends that the FCC re-evaluate whether market forces have been successful in reducing access charges at the end of three years. The criteria to be used should include, but need not be limited to, the following: 1) analysis of the rates the ILECs are setting for various access services; 2) review of the changes in demand for access services; 3) changes in ILEC market share relative to other carriers; and 4) changes in the number of access competitors in the area. If competition has developed in the areas, additional entrants likely will have entered the market.

The prescriptive approach could be employed in all areas which do not pass the competitive test. While the ILEC would be granted pricing flexibility in the not-sufficiently-competitive areas, rates would be capped at a lower level each year. The transition to cost-based rates would not be immediate, but would be phased in, for example, over three years. In the initial stage, all rates would be reduced by one-quarter of the difference between current rates and TSLRIC-based rates. At the end of the first year, rates would be reduced to 50% of the difference, 75% of the difference at the end of the second year, with TSLRIC rates in effect at the end of the third year. In all years, the TSLRIC-based rates would include a reasonable share of joint and common costs.

The classification of particular areas as "competitive" or "not-sufficiently-competitive" should be reviewed after two years to determine whether competition is developing in any of the not-sufficiently-competitive areas which would warrant shifting to the market-based approach in the particular area. In that review, the ILEC should be required to demonstrate the degree to which competition has developed in areas originally classified as not-sufficiently-competitive.

Under the blended approach for access reform, forward-looking cost studies must be performed on a geographically deaveraged basis. In the competitive area, the LEC will have the option of pricing within a window, with a cap set at current rates, and the floor, at TSLRIC. For the next two years, the ceiling will become the highest rate charged in the prior year, and the floor will remain the same. This will allow the LEC to respond to competitive pricing by lowering rates within the rate band, based on the assumption that they face effective competitors in the particular market. After three years, the FCC will need to review the rate levels to determine whether its goals for access reform have been met.

Not-sufficiently-competitive areas require the more prescriptive approach because, without competitors in the area, the ILEC has no incentive to reduce its access charges and every incentive to keep them as high as possible to defray potential competitive losses from reducing access charges in competitive areas.

B. The Presence of Substantial Competition Should Be Demonstrated Before Deregulation Occurs

In ¶ 153, the Commission asks whether high-capacity (hi-cap) special access services should be removed immediately from price cap regulation, or whether LEC access services should receive similar treatment. In the case of hi-cap services, California proposes use of the same blended approach discussed above. California has experienced significant competition for transport services in recent years, but only in particular geographic areas. Only in those areas does hi-capacity access service warrant increased LEC deregulation. California is not convinced that other LEC access services face a similar degree of competition.

In ¶ 155, the Commission asks what geographic area should be used to determine if a particular service is subject to substantial competition. Certainly a statewide measurement would be far too gross a measure, especially for a state like California which includes the tiny towns of Volcano and Shingle Springs, as well as metropolitan Los Angeles and San Francisco. Classification by Standard Metropolitan Statistical Area (SMSA) appears to the CPUC to still include areas where competition could develop at different rates. The CPUC recommends instead that the classification be done at the serving wire center level.

The CPUC agrees with the FCC's tentative conclusion that incumbent LECs must prove that competition exists for access service before the regulatory flexibility the FCC proposes is granted. (NPRM, ¶ 149.) California's proposal would require ILECs to demonstrate the presence or absence of competitors. This demonstration would include the number of cross-connects and the number of unbundled loops provisioned which are easily verifiable, and should also include clear indicators of competitive presence in a specific area. In addition, to gain pricing flexibility, ILECs would need to demonstrate that a substantial portion of the FCC's Phase I criteria have been met.

California concurs with the FCC's tentative conclusion in ¶ 156 that demand responsiveness on the part of ILEC customers is an important factor in evaluating the competitiveness of a particular market. The presence of just one competitor, with a single large customer, for access services does not suggest effective competition. A better measure of competition would be the ability of a variety of customer classes to choose among competing access providers. For example, residential and small business, as well as large business customers, should be able to choose an alternative provider for access. A Competitive Local Exchange Carrier (CLEC) serving only a few large businesses in a metropolitan area would not suffice. Market share should be considered in conjunction with other factors in measuring the degree of competition, as the FCC proposes in ¶ 158. Using market share alone as the measure would be inappropriate because 1) the data can be skewed by a handful of large users choosing to buy access from a provider other than the LEC, and 2) a competitor's inability to garner significant market share may result from other factors, such as inefficiency or ineffective marketing. Additionally, actual pricing behavior in particular markets is indicative of the degree of competition in those markets.

V. PRESCRIPTIVE APPROACH TO ACCESS REFORM

In ¶ 222, the NPRM tentatively concludes that some sort of TSLRIC pricing method be used to set interstate access rates under the prescriptive approach to access reform. In ¶ 224, the NPRM suggests that state commissions might be better suited to evaluate TSLRIC-based studies because "state commissions generally have more experience with cost studies." Certainly, the states' current experience with arbitration cases filed under the 1996 Act has given many state commissions an opportunity to review a variety of total element long-run incremental cost (TELRIC) or TSLRIC cost studies. Consequently, states have become proficient at reviewing and evaluating forward-looking cost studies. California proposes that states with on-going proceedings be authorized to continue the process of evaluating and adopting cost studies. Once a state has adopted final TSLRIC-based rates developed in a formal proceeding, the state should than have an opportunity to propose changes to interstate access charges that were developed by the FCC as a result of this proceeding.

The CPUC is concerned that, although intrastate access and interstate access may be distinguished jurisdictionally, from a network perspective they are identical. Both types of access charges share the use of the same network elements, and therefore the costing standards adopted should be similar. Any differences will present arbitrage opportunities.

The FCC seeks comment on whether federal guidelines should be developed for performing state cost studies. While California appreciates the FCC's desire for consistency in developing costs for access, the CPUC opposes the development of guidelines because the FCC's guidelines may differ from how the state originally conducted its costs studies. As mentioned above, any differences between state and federal access rates would result in arbitrage opportunities.

In addition, like many states, California has expended significant staff and party resources over the past few years in developing cost studies based on its Consensus Costing Principles. These principles served as the basis for the TSLRIC studies produced for the CPUC's OANAD proceeding and were used in evaluating the TSLRIC studies themselves. For the FCC to now require the states to modify these cost studies potentially would invalidate California's work to date. Further, revising our cost studies would involve another significant resource investment that would be drawn away from other important obligations imposed by the 1996 Telecommunications Act, including arbitrations. Other states are on parallel tracks in their own unbundling proceedings

VI. TRANSITION ISSUES

A. Universal Service Joint Board Recommended Decision

The NPRM suggests there may be an opportunity for double recovery of costs if carriers are allowed to recover funds from both the federal universal service fund proposed in the Federal-State Joint Board Recommended Decision and implicit subsidies in access rates. (NPRM, ¶ 244.) California believes that new revenues from a universal service fund allocated to the federal jurisdiction should result in a downward adjustment to the price cap mechanism. This policy is consistent with the approach California has taken with its intrastate universal service program.[6] If correctly structured, universal service funding will be directed primarily to support exceptionally high-cost loops; therefore, it would be appropriate to lower the CCLC which is intended to recover loop costs. To the extent that a carrier can demonstrate that another basket or service category generates a disproportionate share of any implicit subsidy, the carriers should be allowed to reduce the price cap index (PCI) for the baskets or service category.

B. Identification of Potential LEC Revenue Differences Resulting From a Change in Access Rate Structure

The FCC seeks comment on "the potential difference between the revenues that incumbent LECs generate from current interstate access charges and the revenues that revised access charges are likely to generate". (NPRM, ¶ 242.) Further, the FCC seeks comment on "both the estimated magnitude of that difference and the extent to which alternative methods of recovery of that difference should be permitted". (Id.)

California recently wrestled with these very questions, and other related questions, in a phase of its Local Competition proceeding. There, the CPUC examined the financial impacts associated with the rules California adopted to implement local exchange competition. In that proceeding, the CPUC gave the LECs the opportunity to offer a showing as to whether the CPUC's rules for competition prevent the LECs from earning a fair return on their investment. In contrast, the NPRM appears to assume that a revenue impact will result from an FCC decision to move access charges closer to economic costs. In addition, the CPUC identified a legal basis for potential recovery of any failure of the CPUC's rules to afford the LECs the opportunity to earn a fair return and recover invested capital. The NPRM seeks comment to assist the FCC in determining whether a legal or equitable basis exists for recovery of any cost differences

[6] California PUC D.96-10-066.

resulting from the access reform proposals.

The CPUC determined that, as of the date its decision issued in September, 1996, not enough experience in a competitive marketplace had been realized for the CPUC to reach any meaningful conclusions about potential losses to the LECs from regulatory changes intended to foster competition. Nor could the CPUC quantify any potential losses.[7] California permitted the two largest incumbent LECs, Pacific Bell and GTE California, to return to the CPUC after January 1,1997 with any requests for compensation based on actual experience in a competitive market. In light of the CPUC's deferral of a policy decision on these issues in California, the CPUC deems it inappropriate to respond to all of the FCC's queries on this topic at this time.

California does wish to comment on one subsidiary issue, however. The FCC seeks comment on "whether the amount of any difference should be determined and fixed as of a date certain, such as the enactment of the 1996 Act". (NPRM, ¶ 255.) The CPUC believes that the amount of any possible difference(s) between LEC revenues under the existing access charge scheme and revenues likely to be generated under a new access rate structure should be determined no sooner than the effective date of an FCC order adopting a new access charge structure. The LECs will not be losing any revenues attributable to a change in access charge structure until such a change occurs. Passage of the 1996 Act did not, in and of itself, cause a change in the access charge scheme to take place. Rather, the Act contemplated that the FCC would effectuate such a change in a subsequent order. Once that order is issued and effective, the LECs will realize its impact, if any. If the FCC determines that a revenue realignment is warranted,

[7] California authorized competition for facilities-based local exchange carriers effective only in January, 1996, while resale local exchange competition was authorized effective in March, 1996.

the realignment similarly should become effective at that time.

C. A Surcharge May Be An Appropriate Recovery Mechanism

The NPRM additionally seeks comment on what means of recovery, if any, the FCC should adopt for the potential difference between existing LEC interstate access revenues and revenues likely to result from a new access charge structure. (NPRM, ¶ 260.) The NPRM offers for comment a market-based recovery scheme, as well as several regulated recovery mechanisms. Because California is proposing a blend of market-based and regulated access charge approaches, the CPUC supports a regulated recovery mechanism, suggested in the NPRM. (NPRM, ¶ 264.) The CPUC believes that in competitive areas, an explicit recovery mechanism may not be necessary, and that competitive losses should not be recoverable at all. Further, California considers it premature to determine now whether the LECs, in competitive areas, will not have an opportunity to earn a fair rate of return.

For areas where the prescriptive approach is used and the FCC decides that ILECs are entitled to revenue recovery, California proposes that the FCC allow incumbent LECs to impose a surcharge on all access customers including affiliates of ILECs. This is the class of telecommunications users who actually purchase access services, and thus cause the costs of providing access. To the extent that the FCC determines there will be a gap between existing LEC interstate access revenues and revenues resulting from a change in the access charge scheme, that gap involves access charge revenues only, which currently are paid by access customers. California fails to see the consistency in requiring a broader class of customers to pay the potential difference in access revenues.

VII. Regulation of Terminating Access

The NPRM acknowledges that competition has developed for originating access, but expresses concern that no comparable competitive market appears to be developing for terminating access. (NPRM, ¶ 271.) Specifically, the NPRM notes that while the calling party selects the provider of originating access, the called party chooses the provider of terminating access. (Id.) As a consequence, the FCC suggests that "even with a competitive presence in the market, terminating access may remain a bottleneck controlled by whichever LEC provides access for a particular customer". (Id.)

To remedy the problem it perceives, the NPRM proposes some form of continued regulatory oversight of terminating access provided by incumbent LECs which are subject to price cap regulation. (NPRM, ¶ 271.) In particular, the NPRM offers three options: 1) establish a rate ceiling that would prevent an incumbent price cap LEC from charging more for terminating access than the forward-looking, economic cost of providing the service, 2) require these LECs to develop forward-looking, economic costs based on TSLRIC-type studies, and 3) require the incumbent price cap LEC to charge the end user for the service. (Id.)

California supports option 2, which would require incumbent price cap LECs to base their charges for interstate terminating access on forward-looking, economic cost studies. This approach is consistent with the CPUC's approach in its open network architecture proceeding, where the costs of intrastate terminating access are being determined. California suspects that the costs of intrastate and interstate terminating access are virtually, if not actually, identical. Thus, the CPUC's intrastate cost studies would suffice for establishing forward-looking, economic costs for interstate terminating access.

Further, California explicitly opposes the proposal to charge customers directly for the cost of terminating an interstate call. This approach would be a dramatic change for customers, who most likely would not understand why they would suddenly be paying to receive a call, as opposed to paying to place a call. In addition, some customers, as the NPRM suggests, undoubtedly would refuse to accept calls if they knew that doing so would mean incurring a charge. (NPRM, ¶ 275.) Such a result would not contribute significantly to the development of competition for terminating access, but would produce customer confusion, complaints, and perhaps lower utilization of the network.

VIII. CONCLUSION

The CPUC respectfully submits these comments on the FCC's access charge reform NPRM for consideration in this docket.

January 29, 1997

Respectfully submitted,

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ATTACHMENT A

BEFORE THE
PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework of Network Architecture Development of Dominant Carrier Networks.	NO. R.93-04-003
Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks.	I.93-04-002

CONSENSUS COSTING PRINCIPLES/BASIC NETWORK FUNCTIONS; OANAD COST METHODOLOGY WORKSHOPS

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August 23, 1995

CONSENSUS COSTING PRINCIPLES

The parties participating in the OAND cost study workshops have reached agreement that the following nine costing principles, with associated explanatory text, should replace the principles and text that appear in Attachment A of the Assigned Commissioner's Ruling.

Principle No. 1: Long run implies a period long enough that all costs are avoidable.

Long run is a period of time long enough so that all costs are treated as avoidable. Variable is synonymous with volume-sensitive and therefore not synonymous with avoidable. Avoidable costs can include both volume-sensitive and volume-insensitive costs. The purpose of this principle is to preclude the possibility of cross-subsidization by ensuring that TSLRIC estimates include all costs necessary to provision a telecommunications service.

Principle No. 2: Cost causation is a key concept in incremental costing.

Cost causation is a consistent and fundamental principle of TSLRIC studies. The principle of cost causation should be utilized to determine the appropriateness of including a cost in a TSLRIC study. The basic principle of cost causation is that only those costs that are caused by a cost object in the long run should be directly attributable to that cost object. Costs are considered to be caused by a cost object if the costs are brought into existence as a direct result of the cost object or, in the long run, can be avoided when the company ceases to provide the cost object.

For example, within the telecommunications industry, the principle of cost causation is best viewed from the standpoint of providing a service and what costs are necessary to offer that service. All costs caused by a decision to offer a service should be included in a TSLRIC study of that service.

Principle No. 3: **The increment being studied shall be the entire quantity of the service provided, not some small increase in demand.**

1. TSLRIC studies for "disaggregated pieces"[1] of the LECs' networks shall form the basis of TSLRIC studies for LEC "services"[2] so that the results of the cost studies for "disaggregated pieces" will be blind to the "services" that use those pieces.

2. The TSLRIC study for each "disaggregated piece" shall use an increment of demand equal to the aggregate demand for that "disaggregated piece" across all its uses as an input to LEC "services" and, if applicable, as a separately tariffed LEC "service." The TSLRIC study for each "disaggregated piece" shall separately identify the volume-insensitive and volume-sensitive costs for that "disaggregated piece," taking into account the entire aggregated demand for the "disaggregated piece."

3. The TSLRIC study for each LEC "service" shall include the volume-sensitive costs of shared "disaggregated pieces" and the total costs (both volume-sensitive and volume-insensitive) for all "disaggregated pieces" or functions that are dedicated uniquely to the LEC "service" being studied.

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[1] For purposes of this consensus item, the term "disaggregated piece" has been used in place of the terms "resource," "basic network function" and "basic network component/basic network element" that were used in individual parties' filings. Although not precisely defined here, "disaggregated piece" refers to a higher level of aggregation than "nuts and bolts" items such as line cards, but (typically) a lower level of aggregation than tariffed LEC services. Some "disaggregated pieces" may, however, be offered as separately tariffed services in addition to being used as inputs to bundled LEC services.

[2] The term "services" refers to separately tariffed LEC service offerings or contracts, which may bundle together "disaggregated pieces" or may offer a single "disaggregated piece" for public purchase.

4. The TSLRIC study for each individual LEC "service" shall not include volume-insensitive costs of shared "disaggregated pieces." Instead, the TSLRIC for the group of services that share "disaggregated pieces" shall include the volume-insensitive cost of the shared "disaggregated pieces" plus all relevant volume-sensitive costs.

5. The total increment of demand at the "disaggregated piece" level is used to determine the size and the characteristics of the technology that shall be used to determine the TSLRIC.

The parties agree that this costing principle would produce costs that are relevant for determining whether cross-subsidization exists. All parties reserve the right to produce or request additional cost studies for other purposes and to identify other purposes for TSLRIC cost studies.

Principle No. 4: Any function necessary to produce a service must have an associated cost.

This principle assumes that any function necessary to produce an output or telecommunication service has an associated cost — whether that cost is volume-sensitive or volume-insensitive. The associated cost necessary to offer a service should in turn be included in a TSLRIC analysis. There shall be a presumption that no costs are sunk unless demonstrated to the contrary. The party seeking to demonstrate sunk costs has the burden of proof.

Principle No. 5: Common costs, if any, are not part of a TSLRIC study, except for a TSLRIC study of the firm as a whole.

TSLRIC studies shall includes costs that are often called overhead costs if those costs are caused by the decision to offer the cost object. TSLRIC studies of individual services shall exclude overheads that are not demonstrated to be caused by the cost object. Recognition of such costs will be treated as a pricing issue. No cost shall be assumed to be volume-insensitive common cost on the basis of its accounting treatment.

Principle No. 6: **Technology used in a long run incremental cost study shall be the least-cost, most efficient technology that is currently available for purchase.**

This principle assumes that a TSLRIC analysis should be based on the existing or planned location of switching and outside plant facilities using the least-cost, most efficient technology. The least-cost technology should reflect a known and proven technology that is clearly identified and is in use, at least partially, today.

Principle No. 7: **Costs shall be forward looking.**

TSLRIC studies shall be "forward looking"; *i.e.*, they shall not reflect a company's embedded base of facilities. Rather, the study shall account for only the most efficient and cost-effective means of providing the service. Efficiency requires that future costs be taken into account. Future costs must include all cost components required to provision a telecommunications service.

Principle No. 8: **Cost studies shall be performed for the total output of specific services and will use as a basis the basic network functions which comprise the services plus all other service specific costs.**

The cost methodology implementation should ensure that costs for services which use the network in the same way are treated consistently in terms of the network functions contributing to their respective costs. Specifically, the parameters of volume, distance and duration, and time of day, as to their effect on cost, should be consistently applied from service to service to the extent that the services use the network in the same way and to the same extent. For example, peak/off-peak cost differences shall be based on the aggregated usage patterns of all directly substitutable services within a given market.

Principle No. 9: The same long run incremental cost methodology shall apply to all services, new and existing, regulated and non-regulated, competitive and non-competitive.

A TSLRIC study shall be based on a specific set of costing principles and data that yields consistent cost results that can be compared to all services, new and existing, regulated and non-regulated, competitive and non-competitive.

Types of Costs

Throughout this discussion, various costing terms have been used. These terms — such as "direct," "indirect," "common" and "joint" — have been taken from the two-volume cost study report submitted to the Oregon Public Utility Commission (PUC) in Docket UM-351 (1993). This report identified the following types of costs associated with basic network functions:

> **Volume-sensitive costs** — Costs that vary with changes in the output measured according to the cost drivers established for the output. (It is important to note that the term volume-sensitive is not synonymous with the terms usage-sensitive or traffic-sensitive.)